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sary in accepting his generalizations. The material he has furnished is, however, rich; and though he is indebted for much of it to the labors of learned predecessors, he has so shaped and worked it over that, whatever flaws and extravagances may be found in his theory, his book will remain most suggestive, and will certainly lead to further discoveries, the range and importance of which it is impossible at present even to guess.

KARL BLIND.

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#### ART. IV. — RAILWAY PROBLEMS IN 1869.

THE administration of President Grant and the sessions of the Forty-first Congress opened on the 4th of March, 1869. The houses of Congress remained in session only until the 9th of April. During that brief interval ample evidence was afforded that the precedent established in the case of the Pacific Railway, in respect both to the aid which had been so liberally granted by the national government for its construction, and to the disposition made of that aid through the machinery, auxiliary to its construction, known as the Credit Mobilier, had not been lost upon an unobservant public. During those twenty-six working-days no less than twenty-three bills were introduced into the Senate, providing for the construction of 14,050 miles of railway which unaided private capital could not be induced to build, and appropriating to the furtherance of the work 224,245,520 acres of the national domain, or nearly one half of the whole amount of territory now remaining unoccupied. The demand for appropriations did not stop here. In certain cases liberal subsidies in money also were asked, and, under the provisions of three bills alone, the government was to become responsible for nearly seven millions of annual interest on more than one hundred and fifteen millions of capital indebtedness.\* Most people have heard of that law which the

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* International Pacific Road, Sen. Bill No. 134,	\$ 22,500,000	Int. \$ 1,350,000
32d-Parall.-of-Lat. Road, Sen. Bill No. 165,	64,000,000	" 3,800,000
Pacific Central Transit, Sen. Bill No. 188,	30,000,000	" 1,800,000
Totals, . . . . .	\$ 116,500,000	\$ 6,950,000

late Senator Benton emphatically described as “a bill with a stump-speech in its belly”; but it is not, probably, too much to say that each of these still pending measures contains within it the germ of a *Credit Mobilier*.

It is not proposed at this time to pass in review the history of the construction of the Pacific Railway, or of its connection with the mysterious institution just referred to, even in so far as the facts have yet been made public. Such a narrative might indeed afford a timely lesson to the American people; but if attempted at all, it must be at some future day. Meanwhile public attention cannot be too soon or too pointedly called to the alarming activity which the supposed pecuniary success of those who undertook the construction of that pioneer road has given to the most dangerous and corrupting form of all legislation. Bills which have “money in them” are the bane of representative government. It is currently supposed — whether correctly or not is of no consequence, so far as the effect on legislation is concerned — that the constructors of the Union Pacific Railway and the stockholders of the *Credit Mobilier* made on the “job,” if it may be so called, some seven hundred and fifty per cent on the amount of capital embarked. Doubtless the persons severally interested in the enactment by Congress of the twenty-three bills introduced into the Senate between the 5th of March and the 9th of April last are fully persuaded, each, that the passage of his particular bill involves for him a no less profitable return.

The people of this country should have obtained two things, almost equally valuable, from the completion of the Pacific Railway, — the first a trans-continental road, and the second the wisdom which comes from dearly purchased experience. Very likely the money cost of the Pacific Railway, great as it was, and lavish as the method of construction is understood to have been, was not excessive. The country demanded the thoroughfare, and was willing to pay for it; it made its own contract for the work of construction, and yet retains the power to enforce the terms of that contract. It has therefore little right to complain if the daring and energetic men, who risked their whole fortunes in the work of forcing through a novel enterprise to a splendid success, now claim to the uttermost

farthing the great stakes for which they played so well. At the same time, after the lesson has been paid for, it should not be forgotten.

In a moral and political point of view, there is nothing more dangerous than this fostering of special interests ; for the legislation which effects it inevitably becomes a precedent, to the application of which there is no limit. Our own history is full of examples of this evil. Instances without number might be cited from applications of what is known as the protective policy. Never, however, when this course of legislation has once been entered upon, has all the protection been granted, — nor could it be, — which special interests have called for. No law of supply and demand operates in this case, for the simple reason that the whole policy is based on the stimulation of a supply in excess of the natural demand. Natural laws are interfered with ; and the moment such an interference is attempted, an unlimited field for special legislation is opened. The law of compensation then begins to operate. An unnatural development has been attained, and an unnatural condition results. Greedy interests are stimulated into existence, which clamor for public support in the name of justice, set in motion every element of corruption, and inculcate every fallacy, until the original interference, which was, perhaps, in itself justifiable, has generated a vast progeny of jobs. These intrigue and combine and coalesce, until a system of political “rings,” legislative “log-rolling,” and organized “lobbies” results ; and then, at last, the evil becoming intolerable, the community sluggishly grapples with it in a struggle for self-preservation. Thus it is, in the cant of the day, that a certain class of evils work their own cure.

The United States government may now fairly be considered as committed to a policy of lending encouragement, through direct material aid, to an indefinite expansion of railways. It is many years since the precedent was established of granting tracts of public land in aid of railroad construction. While the demands of the companies were limited to this, little objection could be made to them. Land speculations, of course, took the form of railroad enterprises ; but it was so evidently the policy of the government to dispose of unoccupied lands, in order to promote their settlement, that the abuse was not a

crying one. The assistance asked for was not, however, long confined within these limits. In the case of the Pacific Railway, for the first time, a money as well as a land subsidy was granted to a railroad enterprise. The record of the first few weeks of the Forty-first Congress gives the country, if it only heeds it, a very clear intimation of the use which is to be made of the precedent thus established. It is not necessary to seek in other interests for illustrations of the extent to which this principle may be pushed; for the history of railroads in this country affords cases sufficiently in point. One may be found in the legislation of Massachusetts. This State committed itself to the policy of interfering in railroad development in the year 1836, by subscribing to the extent of ten thousand shares of stock in aid of the construction of a line of road which was to connect Boston with Albany and the West. This was, at the time, looked upon as an exceptional case, in favor of which a time-honored policy of non-interference with industrial development was to be set aside. The end once attained, it was supposed that no occasion for a new violation of the rule would arise. The precedent was, however, established, and the usual consequences followed. A third of a century has since passed away, and Massachusetts is to-day more deeply involved in new and doubtful railroad enterprises than in any previous year of her history. Not a session of her legislature passes, that demands are not presented on her credit, each year in language more imperative. The exceptional action of 1836 has become the rule of 1869. As a result of this system, the State has been drawn on, step by step, into unforeseen entanglements, until it is now straining its credit as it painfully carries through two thoroughly bankrupt private enterprises. To the north, but within the State limits, the Hoosac Tunnel is slowly progressing towards completion at an actual outlay, already provided for, of \$ 8,000,000 of public money; while to the south, in Central Connecticut and Eastern New York, \$ 5,000,000 more are being expended on the Boston, Hartford, and Erie Railroad. What further sum, in addition to those already obtained, these enterprises may exact before their completion, cannot now be accurately computed; but it will hardly fall short of \$ 5,000,000. The example furnished to all who choose to give heed to it

does not stop here. The evil would be trifling were it confined to a liability for \$ 14,000,000 or \$ 24,000,000, or indeed to the actual loss of such large sums. Unfortunately, the whole atmosphere of legislation has been corrupted. Money is not, perhaps, received as a bribe, but all the machinery of special class legislation has been called into existence. Each new scheme counts its phalanx of disciplined supporters, who look eagerly round for other hands with similar ends in view, until at last the subsidy-mendicants are welded into a majority. Each new precedent helps to establish a fixed policy of lavish appropriation, and what was formerly petitioned for as a favor is now demanded as a right.

Such have been the results of a single dangerous precedent, established only thirty-three years ago in one State. It only remains to apply this experience to the larger national conditions. The United States entered on the policy of money subsidies in 1862: should its progress in that path be at the same rate as that of Massachusetts has been, — and Massachusetts, be it remembered, is one of the more conservative States of the Union, — then it will be safe to say that, by the year 1890, the national government will be involved in the affairs of railroad corporations, two thirds of them insolvent, to the extent of \$ 600,000,000 ; it will find itself compelled to assume directly the completion, if not the management, of the most hopelessly bankrupt and unpromising roads, — and, not of one or two alone ; and finally, except in the extremely improbable event of the development of legislative morality proceeding *pari passu* with the development of temptation and of the means of corruption, the moral condition of the government will have become unendurable.

The effects on legislation, likely to ensue from the completion of the Pacific Railway, are not, however, those which most excite the interest of our people ; and, in whatever aspect we regard the subject, it furnishes abundant food for reflection. The material, the moral, and the political interests involved are found to be inseparably connected, and the one leads to the other, in some unexpected way, no matter from what side this railroad problem is approached. Take, for instance, the phase of corporate consolidation, through which the railway system

is now so rapidly passing, and to which the completion of the Pacific Railway has recently given a prodigious impulse. It is only seventeen years since the New York Central was composed of ten independent links connecting the Hudson with the Lakes, all of which were as distinct then as are the larger links connecting New York and San Francisco now. The consolidation of these roads was the result of a natural law, rather than of any enactment of the Legislature of New York. Under the operation of this same law, the only question is, how soon a consolidation of the roads forming some one of the connecting lines between the Missouri River and the Atlantic will carry the Pacific Railway across the continent. The progress in this direction is too evident to escape observation. Ever since the completion of the Pacific Railway could be counted on as a definite result, every prominent road in the East has been hard at work securing, through consolidation, perpetual leases, or close contracts, a connection with the single trunk road. There are four of these great roads, leading to the four Atlantic seaports.

The Baltimore and Ohio, farthest to the south, controlling in its trunk line and branches 523 miles of track, represented by some \$45,000,000 of capital, has also obtained the ownership by lease of other routes to Cincinnati and Lake Erie, representing 305 miles more of track and \$20,000,000 additional capital. Starting afresh at Cincinnati, this great company has recently effected close connections with Chicago and St. Louis through lines of which it has obtained practical control; until now it is, to all intents and purposes, the master of over 820 miles of road and \$85,000,000 of property, in place of the \$31,000,000 it represented eight years ago.

This growth, however, is trifling compared with that of the Pennsylvania Central. In 1861 this company returned, according to its balance-sheet, a capital of \$34,234,559; it is now, perhaps, the richest and most powerful single corporation in the world. Within the last year its development has been unprecedented, and would furnish a curious page in the history of railway intrigues and legislative manipulation. Early in 1869 the Erie Railway managers sought to cut off the connections of the Pennsylvania Central and to shut it up

within the limits of Pennsylvania. For a brief time the battle seemed to go against the latter, but suddenly the tide turned. Bills in the interest of this company, which it was doubtful if it were in the power of any legislature to pass, were pushed through their various stages, and received executive approval, with a speed unprecedented; contracts, arranged with the Erie managers by boards of directors, were unexpectedly rejected in meetings of stockholders; and for a time this irresistible power even threatened to wrest from the Erie road its own peculiar and long-established connections. The result of these operations is that the Pennsylvania Central now owns by perpetual lease a whole system of roads radiating to all points in the West and Southwest. By one it reaches Chicago, by another St. Louis, and by a third Cincinnati. At Indianapolis it has absorbed a network of routes; at Chicago it has formed a connection, which will probably soon result in a perpetual lease, with the Rock Island, which carries it directly on to the eastern terminus of the Union Pacific. It is difficult accurately to state either the miles of track or the amount of property included in this vast consolidation; it is probably safe to estimate the first at 2,700 miles and the last at \$160,000,000.

The Erie Railway has been less fortunate in its efforts, the result of which now presents the curious spectacle of a number of bankrupt roads bolstering each other up, and trying to produce strength out of a united weakness. The record of certain of these roads presents probably the most discreditable page in the financial history of railways. The combination connects New York and St. Louis by 1,200 miles of unbroken, broad-gauge track, and has also made great progress in the direction of Chicago. The utter insolvency of the Erie Railway, and the depth of disrepute into which its management has fallen, and drawn everything connected with it, places this combination, in comparison with others, at a great disadvantage. Nominally it may now represent some \$200,000,000 of stock and indebtedness; but under the processes by which these have been created, they might just as well represent twice that amount, while it is perhaps safe to estimate its property at \$125,000,000 of real capital.

Last and greatest of all comes the New York Central, or



Vanderbilt, combination. This controls, within the limits of New York alone, under one head and as the property of one man, 974 miles of track, now represented by about \$125,000,000 of paper securities. This, however, is but a small portion of the power of that combination of which Commodore Vanderbilt is the central figure. Beyond the limits of New York the Michigan Central and the Great Western of Canada depend wholly on the closeness of their connection with this interest; and to the South, a great consolidated line, which stretches out its branches through five States and over 900 miles of track, from Buffalo to Chicago, has recently, after a long conflict, passed under its practical control. At Chicago it branches again through a treble connection, to join hands with the Pacific Railway. These roads are bound together by no consolidation or perpetual leases; in some cases even their interests are antagonistic. For the present, however, they are welded to each other by geographical necessities or by the wealth and personal influence of one man, and, as they appear united around the direction of the New York Central, they represent the control of nearly 5,000 miles of track and more than \$300,000,000 of capital. In the case of the Pennsylvania Central the consolidation is complete, and a corporation is the centre; in the case of the New York Central the combination is temporary and depends upon a single life.\* The diverse interests are, however, so curiously brought together by so many influences, that, while Vanderbilt lives, it is scarcely possible that he will not remain the head of the largest combination of private capital in existence.

Thus, practically, State lines are done away with by corporations created by States. The machinery of civilization has entirely outgrown the system of government under which it was organized, and has neutralized many of the fundamental laws which regulate the control and disposition of property.

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\* Several of the roads included in this combination, as, for instance, the Boston and Albany, and the Michigan Central and its connections, are anxious, as is well known, to keep themselves independent of it; but, while the Erie is under its present direction, Vanderbilt must continue master of the situation, and when the Erie is freed from the incubus which now weighs upon it, it will inevitably pass under his control. Either through geographical necessities or through control of stock, the alliance would, therefore, seem to be inevitable.

Take, for instance, the question of entail. In regard to no point of policy has American law been more jealous than in regard to the creation of perpetuities and the breaking up of large estates. The growth of railroad corporations has entirely baffled all precautions and statute regulations on these points. The railroad system not only constitutes an indefinite number of perpetuities, but they are all perpetuities of indefinite capacity for growth. They are, in fact, private estates in corporate management. The stockholders change, the directors change, the officials change, but the property of the corporation changes only to increase. Thirty years ago there was no corporation in this country of any kind not political, which controlled more than five millions of capital ; while that of the largest railroad company was reported at \$4,379,225, and the largest gross income of any such company at \$427,286. Ten years later, in 1849, the capital of no company exceeded ten millions ; but in 1859 the construction account of one was reported at thirty-five millions, and the period of rapid growth had just commenced. The development of the last ten years in this respect has been sufficiently dwelt upon. It is only necessary to add that, at the close of 1869, the Union Pacific claimed to represent over \$90,000,000, and the Pacific Central over \$75,000,000 of assets, while each kept a mysterious unsubscribed stock capital of over \$90,000,000 in the background against future contingencies. Meanwhile, during the same year, one corporation, owning nothing beyond the limits of a single State, reported \$104,673,999 of capital stock and indebtedness, on which during the previous year it had earned a gross income of \$19,955,518. Such has been the progress in a single generation.

These are individual instances ; and all, be it remembered, are but separate members of the huge leviathans which are to be evolved from the changes of the next twenty years. Such as they now are, they constitute a power which knows nothing of laws against perpetuities, or of distribution, which is a law to itself. So far as the influence on government, and on all political questions, is concerned, it makes no difference whether vast accumulated estates are held in the names of individuals or of corporations ; those held by individuals are, in

fact, the less dangerous of the two, as, in the natural course of succession, they will inevitably pass into the hands of the incompetent or the improvident. This is not the case with corporations. Their officials and ruling spirits are not born in the purple, nor are they the accidents of accidents; they are, usually, men who force their way up by native ability, and who rule only so long as they succeed. History is not without its precedents of corporate bodies governed in this spirit. One forcible example naturally suggests itself. The Roman Catholic Church was at one time the most enormous landed corporation the world has yet seen, and the most disturbing social and political power. It exercised the combined influence derived from its religious character and its vast, inalienable landed possessions. It would be mere hyperbole to liken the possible future of the railroad system to the past of this famous hierarchy; and yet they are not without their interesting points of resemblance. The railroad system, bound together, as its members in all probability ultimately will be, by a sense of common danger and of common interest, will exercise all that influence which the Roman Church derived from its wealth; though in place of the religious and moral sway of that body it will enjoy only the potent influence conferred upon it by the general passion for material development to which it so efficiently ministers. One advantage which the church enjoyed, and which the railroads can hardly possess, was the concentration of all power at a central point in the hands of a single individual. Hitherto the absence of this concentration has prevented the railroads from obtaining all the control which their wealth and influence would make inevitable should the consolidation of the system ever become perfect. Here lies the political mischief of any proposition which favors what is called State ownership. This subject must be considered in another part of this paper; but it may here be remarked that this concentration, were it ever effected, would, not improbably, result, under our form of government and modes of political action, in giving to the system just that unity and vigor the lack of which has hitherto in great degree neutralized its influence. The railroads of the country, if now brought under a single head or one controlling mind, or the manage-

ment of a single board, would yield all the influence that is involved in the control of \$2,000,000,000 of property, returning an annual gross income of \$400,000,000, and supporting 450,000 employees. Such a position, in any community which evolves its government through the medium of a caucus, must inevitably become the great political prize, the last spoil of victory. In it the Tammanies of the future might securely entrench themselves, while a hundred Eries hedged them about.

Before entering into any discussion of the phases which the process of consolidation may next assume, and of its possible political effects, it may not be out of place briefly to consider the system, as a disturbing social and political force, even in its present comparatively disconnected and internally discordant condition. The subjects here to be referred to are, however, so far matters of public notoriety that it is unnecessary to state them at great length. Every one has an idea, more or less accurate, of the system of legislative influence and control which the railroads have developed. They are regularly represented by their directors, attorneys, or agents, in every Congress and in each State legislature. Neither is this a fact at all to be regretted, if their action stopped here. The railroad system represents so large a property, and so directly involves in its workings the most delicate interests of our day, that it is both right and desirable that it should be adequately and intelligently represented in every legislative hall. If, therefore, intelligent legislation is a thing to be desired, it is a subject of congratulation rather than of regret that the representatives of railroads are regularly found in the bodies from which legislation proceeds. The difficulty with their political action lies deeper down. Corporations are necessarily selfish. They have their own ends to gain, and exact from the agents they employ the attainment of those ends to the exclusion of all other considerations. Public questions and political and moral discussions are nothing to them; they look simply to the results which their own interests demand, and use the agents who most successfully secure those results, without greatly concerning themselves about the means they employ. One consequence of this has been the growth of a most corrupt system of legislative manipulation and log-rolling. Examples of this

need not be specified ; they suggest themselves to every one in the slightest degree conversant with legislation at Washington or in any of the State capitals. Alarming illustrations might be drawn from the recent experience of Massachusetts, New York, Pennsylvania, or Illinois. In some of those States, within the last year, bills of a very diverse character, engineered by corporation counsel, have been combined and balanced one against another in the committee-rooms, and this with scarcely a pretence at concealment ; forces were collected, disciplined, and told off, and then the measures were marched into the legislatures in solid column and carried through, almost without a struggle. In New York and Pennsylvania this system has attained its perfect growth. There the great corporations openly ally themselves with political parties and cliques, and are unscrupulously used as engines of party warfare. This has, indeed, been the case for years, though the latest developments are ever the most alarming. The old alliance between the Central road and the Albany regency was deplorable enough, but more recent and closer combinations have proved that the lowest depths of political corruption were not yet sounded.

Such, regarded from a political point of view, is the power and the deteriorating tendency of the system in its present unwieldy and disconnected shape. Each step in the path of concentration apparently strengthens these tendencies. Every phase of consolidation becomes therefore a subject of peculiar interest. If the railroad system is to continue in private hands and under corporate control, will the process stop with the ultimate consolidation of certain connecting lines, now evidently impending ; or is this union, even on the largest scale, but one phase of the operation of some general law which will next show itself in a new aspect ? This law, be it remembered, is, by name at least, a familiar one : it is the law of gravitation. Just as the larger material body attracts in space the smaller, — just as development naturally leads to a more complex and yet to a more simple condition of being, — so our railroad system tends ever to consolidation, and that consolidation rapidly casts off old trammels, the fruitful source of discord, and results in a more elaborate and perfect organization.

On this subject it is not well to speak too positively, and yet

indications are not wanting that the form of concentration on which we have dwelt is but one, and not the most significant, phase of the working of this general law. It is the one which most effectively and dramatically presents itself to the public, but it is not improbable that a more important revolution is now in rapid progress. Properly to understand the origin and possible scope of this movement, a retrospect is necessary.

What is known as the express system of America is a very peculiar and convenient, though expensive organization, wholly the creation of this country and of the present generation. The men who have since given their names to immense companies, wielding millions of capital, began their brilliant careers in a very modest way. To the Harndens belongs the credit of originating the business. They began operations in 1839, passing to and fro between Boston and New York, carpet-bag in hand ; but that carpet-bag was big with the express system of America. At first they undertook little more than to carry money, letters, and valuables, to make collections, and to see to the delivery of very small parcels between the two cities ; but the carpet-bag soon expanded into a trunk ; the trunk developed into a crate, and each new crate contained more and more cubic feet, until at last they became freight-cars, and the managers grasped at the internal carrying trade. For several years the receipts of the route between Boston and New York hardly exceeded fifty dollars a day, out of which fares, salaries, office-rent, wages, and costs of delivery had to be paid. The machinery, however, was needed ; new lines were organized, opposition started up, and, when Harnden died, in 1845, only thirty-three years old, the business was practically as fully developed as it is to-day. In 1868 there were over 3,000 licensed express carriers and agents in the country, paying an Internal Revenue tax on more than \$ 22,000,000 of gross receipts. Even as early as 1845 the organization had brought about a division of the carriage of freight. The most valuable and remunerative part of it, the carrying of all small and valuable packages, which demand little room and pay heavy rates, had passed out of the hands of the railroads into those of the express companies. These in fact became enormous parasites on the railway system, tak-

ing from it the most profitable part of the freighting business. Their capital and elaborate machinery was nothing more nor less than so many millions added to that sum on which the transportation of the country was called upon to pay dividends. This capital, too, unlike the capital invested in railroads, was subject to no public supervision, and could be indefinitely increased. It has been increased accordingly, through a systematic process of "watering," until, at the present time, the stock of four of the leading companies amounts to \$ 50,000,000, of which probably not \$ 15,000,000 has ever been paid in or is represented by assets. This immense sum is in reality simply that amount on which the directors of the companies believe that they can pay a fair interest from their profits. These profits are in great degree earned out of the railroads, and the community pays on everything sent by the expresses a double charge, — first, a charge to the railroads which perform the transportation; and secondly, one to the agency with whom the contract is directly entered into. At one time this expensive system seemed likely to monopolize, by means of its despatch lines, the whole business of "time freights," and to draw to itself the carriage of all articles, no matter how bulky, on which persons were willing to pay the price necessary to insure speedy delivery. The wealth of the companies was so great, and their influence ramified so far, that the management of railroads in a great degree passed under their control. Officers of the latter corporations suddenly found themselves considerable holders of express stocks, or openly received bribes. The result was that some of these officials observed with indifference, or even connived at, the great inroads which the express system was making on the legitimate freighting business of their lines. There had, however, always been a portion of the railroad managers who had resisted these encroachments, and who had insisted that the railroads ought to conduct the express business, both in their own interest and in that of the community. Nothing, however, was practically done to check the rapid growth of the express companies, until the system of "time freights" was inaugurated by the railroads themselves, in 1858. This was the first step taken by them towards the resumption of their legitimate business, and this was forced upon the

roads by the strenuous exertions of business men. The system of time freights once inaugurated, the attention of railroad managers was soon aroused to the possible profits to be derived from its development. Naturally, this development took the form of a job. Certain men, controlling great through lines, conceived the idea of forming a company which should be nothing more than an immense freight express line, owning its own cars and charging its own prices, while the railroads were to supply only road-beds and motive-power, and charge tolls for drawing cars over their lines. The system of moving freights by canal, in accordance with which all the original railroad charters were drawn, was in fact revived and applied to railroads. This scheme promised to carry to the last possible point of development the express system. The business of carrying freights in their own interest was to be surrendered by the railroad companies, who were henceforth to devote themselves to the transportation of passengers and the dragging of freight-cars. If properly instituted, and regulated with thorough impartiality, with a view to a perfectly free competition between firms engaged in the shipping business, such a system would not be without its advantages. It would create a division of labor, and, if favoritism were excluded, would tend to stimulate competition. It was, however, brought forward with no such views. The men who devised it controlled the roads over which it was to be put in operation. Competition was the last thing they had in view ; on the contrary, they proposed to monopolize in their private hands the whole lucrative business of time freights. It was an immense job. The credit of defeating this ingenious plan belongs, it is said, to the president of a leading New England road. His concurrence in the enterprise was essential to its success ; but, when the plan was submitted to him, he refused to have anything to do with it, except in his official capacity and in the interest of his road. He saw at once the great importance of the scheme, and how profitable it might be made, but he insisted that the roads, and not individuals, should be the parties to it, and that to them all the profits should accrue. This action on his part ultimately led to the formation of the earliest of what are known as the "colored lines." It was organized in 1865, and was substan-



tially a corporation within a corporation. Certain contracting roads between the West and tide-water established the line, all the cars of which were to be numbered, and distinguished by a uniform color. These were to transport freights, under special conditions, from any point of reception to any point of delivery on the connecting roads. Each road was to contribute a quota of cars in proportion to its mileage and traffic. The machinery for the collection and disbursement of money was very ingenious and very simple. A clearing-house, of course, had to be established. The duties of this were, however, confined to the keeping of a record of the miles run by the cars of the various roads in the combination, and to striking, accordingly, a balance of credit or debit each month. A small percentage on the capital invested was then charged for wear and tear, and a balance-sheet forwarded to each road. All transactions in regard to freights are settled in cash when they take place, and no receipts are returned to the clearing-house. A business involving millions each month may thus be done on the payment of only trifling sums in the way of balances. The growth of this system is one of the marvels of railroad development. The "Blue Line" alone has published a report of its doings, and that only for the first year of its organization. During that time, however, it moved 147,052 tons of freight, and earned \$2,692,615, employing 733 cars in the first half-year and 814 in the second, and moving 137,588,819 tons one mile. By the end of the year 1868, of which year no report has been published, the number of cars in the line is stated to have increased to over 1,400, and the movement of freight to nearly 240,000 tons, or 217,333,764 moved one mile. For the first six months of 1869 the number of cars was over 1,800, and the tons moved more than in the entire year 1867, — amounting to 151,995,257 moved one mile. The tonnage of the White Line increased from 57,084,018 tons moved one mile during the first six months of its organization, in 1866-7, by regular gradation, up to 189,249,391 during six months of 1869. The Red Line during the first six months of its operations, in 1865-6, had in service an average number of 321 cars, which ran 3,204,433 miles, and, during six months of 1869, an average number of 649 cars, which ran 10,649,064 miles. The

number of tons moved one mile during the latter period was 191,845,757, against 52,359,571 during the former.

There are three peculiarly significant features in the history of these organizations, — the creation of corporations within corporations, the establishment of a clearing-house, and the rapid growth of the system. It is not impossible that these innovations may result in a revolution of the freighting business, perhaps of the railroad system. The essential feature of the organization is the combining of roads, whether competing or connecting, through the machinery of a clearing-house. This once established, the extent of its possible development cannot be forecast. If a corporation within a corporation, including, as it easily might, a central tribunal practically empowered to enforce its own judgments, should gradually be developed out of this beginning, it is more than probable that the days of railroad competition would be numbered. The present time-freight lines may, therefore, contain the germ of that consolidation which shall weld the railroad interests together as one body, and give to them the unity and concentration which hitherto they have notoriously lacked. This result of the experiment of 1865 would seem by no means so unlikely as that from one carpet-bag in 1838 should spring the present express system of America.

Neither would the result suggested as possible prove, perhaps, in itself, and materially considered, so grave an evil as is commonly imagined. Hitherto competition has been the bane of railways; and, indeed, it is a question whether it has not done more harm than good to the business community which has relied upon it as a protection against monopoly. No system can work its way out to logical results which is perpetually subject to fluctuations; and competition has ever acted on the railway system as a violent disturbing element. At one time it has forced down the charges on transportation to an unnaturally low rate, only to elevate them at another time by artificial combinations to a rate as unnecessarily excessive. Within the last year freights between New York and Chicago have fluctuated, under this influence, between \$5 and \$37.60 per ton; and between the same point and St. Louis, between \$7 and \$46; while, within the last three years, the Erie Railway has carried

goods to Chicago at as low a rate as \$2 per ton, and from this bounded back to \$37. In the last case, part of the transportation was by water; but rates on the same class of freights carried through by rail have ranged all the way from four mills to four cents per ton per mile, and fluctuated violently from the one point to the other. Such has been the result of competition as regards through business, while upon local business its effect has been even more pernicious. "Usually, competing lines, while they seek the same large centres of commerce, reach them through different districts. This confines their competition to the trade of such centres, while the traffic of the country peculiar to each line is not only uncompetited for, but subjected to an extra and often oppressive tax, whereby to restore the revenue depletions each road suffers in its violent struggles with the others for jointly accessible business. The ability to unjustly burden uncompetitive or local trade supplies transporters with strength to wage prolonged contests for other tonnage at less than cost of transport; and this wretched warfare, indirectly ruinous to the local business it overtaxes, is of little real benefit to the property battled for; as, sooner or later, truce is declared, and, if the truce becomes a permanent peace, competition ceases; while if but a temporary measure, it is presently broken, but only to be renewed; then renewed, but only to be broken; while the tax on trade fluctuates with the shattering or maintenance of covenants, until commerce is harassed and dazed and partially prostrated by its wild, illogical, and ruinous changes."\*

For these reasons competition has long been regarded among the best authorities on railroads as a dangerous evil. George Stephenson, the shrewdest man that ever devoted himself to the subject, so regarded it from the beginning, and condensed his reasoning on the subject into the aphorism that, "Where combination is possible, competition is impossible." The most sagacious railway managers look upon it as a terrible weapon in the hands of the visionary, the reckless, or the ignorant; an almost insuperable obstacle in the way of the judicious, the conservative, and the progressive. It disturbs every calculation,

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\* "Transportation as a Science." A paper read by Jos. D. Potts, President of the Empire Transportation Co., before the American Social Science Association at a meeting in New York, October 28, 1869.

vitiates every result, puts a stop to all experiment, destroys all system. All persons concerned in the management of railways are therefore anxious to get rid of it,—the more respectable, that the railway system may have a chance to work out its results under a settled policy; the unscrupulous and less reputable, that a better occasion for levying plunder may be afforded. Under these circumstances it is not impossible that all may unite in the adoption of the principle now lying at the basis of the “colored lines,”—that of a combination and a clearing-house for the adjustment of difficulties,—as a solution of the question.\* Should the seed sown in 1865, which has so rapidly developed within these few years, have this result within the next thirty, there will then exist a combination of forces, material, social, and political, united under one head, which may bear a comparison even with the Church of Rome.

Such a combination would, of course, at once put a stop to competition in so far as the land carriage of freight is concerned. Railroads would, indeed, continue to compete with

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\* The following extract from a communication printed in the New York “Tribune” of November 22, 1869, is not wholly without significance as an indication of the drift of opinion in this direction:—

“*To the Editor of the Tribune.*”

“SIR,—Will you allow us, through the wide circulation of your paper, to present to the stockholders of the great railway system of the United States a practical plan to realize a dividend of six per cent on the capital invested. To do this, the whole system must be reorganized on a common-sense basis, with one president to supervise the whole, with as many sub-presidents or assistants as there are now presidents of all the links that go to make up the great network of railways that cover the face of every State. These different reticulation of railways are as mutually dependent on each other for success as one member of a man’s body is dependent on another. The whole railroad system is dependent for success on the commercial circulation of the inhabitants of one section of the country with another.

“Therefore, to make the institution a paying one, we must have good management, good roads, and a fair remuneration for the work done. The system as now conducted is very much like an army without a general in the field, with each brigadier taking care of ‘number one.’

“If the people and the public generally are the bone of any country, we think the stockholders and the railroads are the muscle and sinew. Therefore we think the first step to this great reform would be to call a national convention at New York of the stockholders, directors, and presidents, to elect one national president and treasurer to financier the whole.

Yours, respectfully,

“TOM BENTON SMITH,  
“Agent R. R. S.”

all water routes, but no longer with each other. It is absurd to suppose that, after the creation of such a central power, the force necessary to make its decisions effective would be wanting. No single member, however powerful, of a combination of the sort suggested, could afford to rebel, when the immediate result of so doing would be that it would be thrown out of the clearing-house and its connections cut. It would, in short, be placed in a position precisely similar to that of a New England bank which, a few years ago, should have refused to conform to the regulations of the Suffolk Bank system. A railroad in conflict with the combination would at once be disabled from transacting any business, except that on its own line and distinct from the railroad system; it would be shut up to starve within its own territory; and the business which should have passed over it would pass round it, over other roads, built to insure competition, but equally available for the purpose of crushing it. The express system has already furnished examples of the exercise of this power. Only recently the Erie Railway undertook to impose certain unsatisfactory terms on the United States Express Company. The express company, thereupon, prepared to direct the vast freight which it moves over competing lines. The managers of the road, reckless as they are, preferred, on reflection, to avoid the conflict, and did not insist on their point.

Neither will it be possible to meet by legislation such a contingency as that suggested. Congress or State legislatures may, indeed, enact by statute that connecting roads shall receive freights from or deliver them to any recusant line; but here their power stops. They cannot by any law, no matter how stringent or cunningly devised, control the direction which may be given by any combination to the immense mass of freight which merely seeks a transit from one part of the continent to another; neither can they dictate as to the use of rolling-stock, which includes the vital point of breaking bulk. Both of these matters obey a law of their own, and merchandise once passing under the control and into the cars of a combination, will, of necessity, follow the channel into which it is directed. No relief could be found from this quarter, even supposing that a combination wielding the immense political

influence which would be possessed by that suggested could not regulate legislation to suit itself.

The first steps then towards combination were taken by the railroads in a species of antagonism to the express companies; they resorted to them for the purpose of self-defence. It now remains for them to follow up their victory, and finally to extend the principle on which they achieved it to the working of their own system. The conflict with the express companies is not yet over. The expediency of the railroads forcing it to an issue by assuming the express business has more than once of late been gravely considered by those who control great connecting lines. The decision has in fact rested with one man. Some time ago this course was urged upon Commodore Vanderbilt, who excused himself from it on the ground that he was too old to go into such a conflict. Had he decided otherwise, had his roads and their connections — and these last were ripe for the measure — decided to cancel all their contracts with the express companies and to assume the whole freighting business, in all its departments, throughout their combined territory, the general combination which has been described must, apparently, have followed. It would have followed whether originally contemplated or not, as the roads could hardly have transacted this business in competition with a powerful and concentrated organization, without the assistance of a machinery equally effective. They could not receive and receipt for parcels and valuable packages, bonds, currency, and specie, to be delivered to consignees in any part of the country, and for the delivery of which they were responsible, without the intervention of a clearing-house, and of a central tribunal to regulate and enforce liability among themselves; they must have resorted to a corporation within a corporation. This once done and extended beyond connecting lines, the whole machinery of consolidation, in so far as freights are concerned, would be practically effected. The central tribunal is established, and the process of development will assert itself. It will be well, therefore, for those who are calling upon the railroads to assume the express business, and to destroy the express companies, to consider maturely the full consequences of their recommendation. These companies are indeed parasites on

the railway system ; they do indeed draw from it the most desirable part of the freighting business ; they are, as is alleged, wholly free from supervision, and do impose a heavy and to a great extent unnecessary tax on the community ; but if the railroads in this country assume the functions of the express companies, they must also assume their organization, and it may well be questioned whether the public would contemplate such a combination with equanimity. It is by no means impossible that very beneficial results might flow from it ; is it not also possible that the race of Frankensteins is not yet extinct ?

There are other considerations, however, apart from their conflict with the express companies and a legitimate desire to suppress competition, which impel the railway managers towards combination. Another and very peculiar phase of railroad development remains to be considered. The subject of railroad inflation, as it was then styled, but which is more commonly known as "stock-watering," was discussed a year ago in the pages of this Review. The possible force of this evil practice upon the minds of all stockholders or railroad managers who care anything for dividends, as an argument in support of a combination of roads, is very apparent. As the volume of stock is increased, larger sums must be earned to keep up dividends upon it, and how those sums are to be extorted from the public becomes a question ever more difficult of solution. As yet the evil has not passed beyond control, and the legitimate profits under the old system meet present requirements, in spite of competition, and notwithstanding the immense amount of fictitious capital on which dividends are demanded. At the rate at which the evil is progressing, however, this will not long be the case ; and, at no remote time, it may suggest itself to the persons most interested, that combination is an excellent method of levying tolls. Whenever that time comes, if all the necessary machinery presents itself constructed and ready for application, so tempting an opportunity will hardly remain unimproved.

The practice of stock-watering received a great impetus during the year 1869. Fallacious arguments were, of course, not wanting in support of it. Commodore Vanderbilt led

off, in December, 1868, by a vast addition to the paper capital of the New York Central, representing, as he claimed, the profits of previous years, which would properly have gone to dividends, but had been absorbed in constructing and equipping the road, which accordingly possessed a real value by no means represented by the amount of its stock in existence. This increase was represented as eighty-four per cent of the whole capital, and that amount was accordingly issued as an extra stock dividend. This was done in the face of repeated sworn statements, on the part of the direction of the road, in previous years, that it could not earn six-per-cent dividends on the existing capital, and that the whole amount which had passed into improved construction did not much exceed \$ 6,000,000.

The law of New York, under which the New York Central was operated, constituted a contract equally binding on the owners of the road and on the community. This law, under certain of its provisions, gave to the Central a valuable franchise and a practical monopoly of a lucrative business. This was what the corporators received. In return for it they undertook to build and operate a road under certain conditions, one of which was that "the Legislature may . . . from time to time alter or reduce the rate of freight, fare, or other profits upon such road ; but the same shall not, without the consent of the corporation, be so reduced as to produce with said profits less than ten per centum per annum on the property actually expended." \* This limitation, wise or foolish, could have been imposed by one of the parties and accepted by the other, but with a single end in view, — to prevent the levying of onerous taxes on the traffic of a public highway in order to pay exorbitant interest on the private capital invested in its construction. A high rate of interest was fixed, to induce persons to incur the risk of loss ; had the State guaranteed the capital invested, six per cent instead of ten would have been sufficient inducement. The business of the road thus stood charged with a possible annuity of ten per cent in perpetuity to its nominal owners on the money actually expended in it by them, and they retained its management. The corporation would

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\* Acts of New York, 1850, ch. 140, § 33.



never have dreamed, in the face of this provision in its organic law, of dividing to its stockholders twenty per cent a year on the original capital paid in. It did assert, however, — and railroad managers as a class all over the country have asserted, in the face of similar laws, and made themselves and the public actually believe, — that, though they could not divide on their stock more than the percentage specified in the contract, they yet could divide that percentage on any amount of stock they chose to create. In other words, they could not divide more than ten per cent on the hundred dollars they had paid in, but they could call that hundred dollars four hundred, and levy and divide ten per cent on the whole amount. The truth was and is, that the contract was one not fit to be made ; but yet it was made, and was and is in force. It only remains to see how it has been carried out. The gradual inflation of the three roads, — the Harlem, Hudson River, and Central, commonly known as the Vanderbilt roads, — up to a little more than a year ago, was referred to in the pages of this Review for January, 1869. The rumors of the brilliant move then supposed to be impending, and which was to eclipse all previous efforts in railroad financiering, were vaguely alluded to, with a remark that “such a climax of paper capital may yet be in store for us, as the last sinful absurdity of an era of paper money.” The reality has surpassed expectation. The private “capital actually expended” in the Central and Hudson River Railroads may, at a liberal estimate, amount to \$40,000,000. In 1862 these roads returned \$52,370,431 of stock capital and bonded indebtedness, and \$61,914,928 in 1868. At the close of 1869 they are represented by \$45,000,000 of share capital and \$59,853,299 of indebtedness ; while the evidences of these values, amounting to \$104,853,299, have all passed into the private hands which advanced the original \$40,000,000. It is further confidently stated that the business of New York, New England, and the West can be made to pay \$8,000,000 per annum on this nominal capital, or twenty per cent a year on the “capital actually expended.”

Under the influence of these ingenious feats of legerdemain, the railroad system has now definitely passed into the phase of extreme paper inflation, and the last hope has vanished of

arriving, by any regular process, at an ideal system which, while adequately remunerating the nominal owners of roads, would impose the smallest possible transportation tax on every description of traffic. The present condition and future prospects of the existing system may not improperly be compared to those of some community which has entered upon the dangerous career of making paper money a legal tender. Each fresh emission may not immediately make itself felt; but enough of them must, in the end, destroy all values, and enough of them to do this will almost inevitably be forthcoming. How soon this result will be arrived at in the experience of railways cannot now be predicted, but the year 1869 made a great advance towards it. During the "gold-corner" panic of September, a prominent Wall Street operator tersely remarked that railroad stocks had been watered so much that "the original security was almost washed away."

Other railroad managers have not been slow to imitate, though on a reduced scale, the splendid example set them by Commodore Vanderbilt. The proceedings of the Erie depredators have already been described in the pages of this Review.\* Their operations were not even covered with a decent veil of sophistry, but degenerated into downright fraud upon both their stockholders and the public. Their antics, no less than Vanderbilt's operations, happily illustrate the need which exists for some agency constantly to represent the community in all the complications which arise out of the existence of a modern railroad system. At present there is no one in New York whose especial duty it is to watch over the interests of the public. What is the business of every one is the business of no one, and those interests are now left to protect themselves. A few years ago there was a tribunal in New York created for this purpose, and clothed with adequate powers; its supervision was, however, disagreeable to the railway potentates, and it was, accordingly, lobbied out of existence. Had this tribunal still existed, and had the officials composing it done their duty during the last two years, the public could hardly have suffered as they have under the depredations of the marauders. Every engine of the law would have been set in motion,—the

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\* North American Review, July, 1869, pp. 30-106.

Attorney-General and the courts would have been stimulated to action, the Executive and the legislature would have been appealed to, and all possible measures taken, to thwart and crush the unlawful and outrageous proceedings of the Erie gang. Vanderbilt's operations also would have been enjoined, and the public outside of Wall Street enlightened as to its rights and the bearing of his action. As to those directors who have outraged law, equity, public opinion, and common decency in betraying every obligation of trustee and guardian, if statutes now in force could not place them where of right they belong,—within the four walls of a prison,—then such as would accomplish that result should at least have been recommended, for the benefit of all who might seek to imitate their example. No such guardians of the public welfare were provided, and, in their absence, the stock of the Erie Railway was secretly and fraudulently increased, in the short period of twenty months, from \$16,574,300 to \$70,000,000, that is, by an addition of three hundred and twenty-two per cent of mere "water." Either precedent or imitation of such a proceeding is, happily, as yet sought for in vain; but the president of the corporation capped the climax of his outrages by stating to a legislative committee, with inexpressible impudence, that the stock of the road he had plundered no longer possessed any value except for "speculative purposes."

After dealing with such vast sums and contemplating such unprecedented "irregularities," it is almost uninteresting to revert to the commonplace cases of inflation. These, however, though individually insignificant when compared with Central or Erie, amounting perhaps in no single instance during the last year to more than a trifling six or eight millions, yet in the aggregate are considerable. The Fort Wayne, for instance, took advantage of a permanent lease to increase its stock capital from \$11,500,000 to \$19,550,000, preferring, naturally, seven per cent on the larger sum to twelve per cent on the smaller. This is the road towards the construction and equipment of which the stockholders are said to have actually paid in about \$4,000,000. Well might a leading Western newspaper exclaim, in contemplation of such proceedings: "To obtain dividends on this aggregated capital, and pay interest

on the bonded debt, will require a continuance of the system of carrying freight at a loss in all cases where there is competition, and resorting to wholesale extortion where there is no competition!" A dispute resulting in litigation takes place between two opposing interests; in due time it is announced through the press that the difficulty has been arranged "on the following terms: first, all suits are to be withdrawn; second, one million of new stock is to be issued, which is to be equally divided between the parties in the recent controversy." A raid is made by the Erie thieves on the Susquehanna Road, and this road is hustled into a New York court, there to be plundered; in a few days the parties to the conflict are found to be considering a settlement based on a ninety-nine years' lease and a thirty-per-cent stock dividend. *Quidquid delirant reges, plectuntur Achivi.*

The Michigan Central divides ten per cent in stock, and the Cincinnati, Hamilton, and Dayton five per cent; the Cleveland and Pittsburg divides fifteen per cent, and the East Pennsylvania is leased to the Reading, and, as a part of the transaction, doubles its whole stock capital.

It is useless to multiply instances; and one more, while it sufficiently illustrates the past, may also foreshadow the future. It would be strange indeed if a year were to elapse in which the Cleveland, Painesville, and Ashtabula road did not appear before the public in this connection. This is the famous line which, having cost in money \$4,868,427, divided three hundred and nineteen per cent in seven years, and, in 1868, was paying dividends or interest on \$11,250,000 of stock and bonded indebtedness. The consolidated Michigan, Southern, and Lake Shore line, of which this road now forms a part, operates 856 miles of track, which certainly does not represent \$35,000,000 of private capital expended in construction. A year ago the several roads since merged returned an aggregate of \$51,548,830 of stock and bonded indebtedness. The consolidated line returns \$55,000,000. Great moderation has been evinced here; three and a half millions, or even twenty millions, does no justice to the occasion. The end, however, is not yet. The Lake Shore and Michigan Southern is intersected by another line, known as the Toledo, Wabash, and Western; the latter,

a road not yet wholly finished, is destined to merge with the former, making a great consolidation of about 1,500 miles in length. Twice within the last year has a basis of union been agreed upon by the representatives of the two roads. The terms of the first agreement provided for \$6,000,000 of "water" as the amount which it was thought the business of the country would endure. This arrangement was not carried out, and a new one was effected, with the six millions of "water" left out. Meanwhile, before this agreement could be ratified, Commodore Vanderbilt had obtained a controlling influence in the Lake Shore and Michigan Southern. New and unforeseen difficulties at once arose in quarters where they would least have been expected, and the proposed consolidation fell through. Possibly, Mr. Vanderbilt may not have considered the Toledo, Wabash, and Western sufficiently depreciated in Wall Street to induce him, as yet, to absorb it. The present market price of that stock is slightly over fifty per cent of its par value. Should it, during any monetary pressure, be forced heavily on the market at low prices, it may then be presumed that the process of absorption is begun. Mr. Vanderbilt never does things by halves: as depreciation will, in due time, be succeeded by inflation, so consolidation will follow absorption. The terms on which this will then be effected might afford food for curious speculation. If consolidated on the basis of present stock capital and indebtedness, the resulting road would be represented by a little less than \$52,000 of securities to the mile. In 1866 the present Vanderbilt roads of New York were represented by a little less than \$60,000 per mile, which has since been converted into rather more than \$115,000 per mile. The same modest ratio of increased valuation, applied at the proper time to these Western connections of the Vanderbilt roads, will convert their present \$77,500,000 (which in itself ought to be at most not more than \$60,000,000) into a round \$150,000,000, which will be in thorough sympathy with the enlarged spirit of the times. This road will then complete the great "watered" line connecting the cities of New York and Boston with Chicago and St. Louis.

So far as the process of Vanderbilt absorption and consolidation, in this direction, has yet gone, the result may be stated

as follows: The distance from New York to Chicago is 988 miles, but the roads dividing this distance operate, in main, branch, and lateral lines, 1705 miles. The average cost of constructing railroads, in the region through which they operate, is \$44,000 per mile, which would have made the cost of this through line \$75,000,000; upon which a reasonable interest would be paid by levying on traffic a tax of \$6,000,000 per annum. In place of this, however, these same roads, under the exhilarating influence of "water," report already a cost of \$160,000,000, or \$94,000 to the mile, upon which they actually exact from the public over \$12,000,000 in excess of all operating expenses. In other words, an annual "water-tax" is levied of over \$6,000,000. As already intimated, the work would now seem to be half done. If, in this case, the foot reveals the Hercules, the capital of the complete consolidated line may be fixed at \$250,000,000 (real cost, perhaps, \$100,000,000 in private capital), for which an annual levy, on traffic, of \$20,000,000 will be demanded, as of right.

There are no complete and reliable statistics on this subject of "watering"; indeed, the process is, as a rule, so ingeniously covered up in public statements that it is very difficult to detect it in individual cases. Grand results, however, make themselves apparent. A table was published, during the last year, in a leading financial organ,\* comparing the capital stocks of twenty-eight roads as they stood on July 1, 1867, and May 1, 1869. During those twenty-two months it was found that the total had increased from \$287,036,000 to \$400,684,000, or forty per cent. Carrying the comparison on nine of these roads back two years farther, it was found that, in less than four years, their capitals had increased from less than \$84,000,000 to over \$208,000,000, or 150 per cent. This table does not include the last 85 per cent on Hudson River, or 27 per cent on New York Central, or 71 per cent on Fort Wayne, or 100 per cent on East Pennsylvania, or 25 per cent on New Haven, or the 10 per cent on Toledo and Wabash, or the 15 per cent on Cleveland and Pittsburg, or the proffered 30 per cent on Albany and Susquehanna, or the last

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\* The Commercial and Financial Chronicle of May 15, 1869.

score or two of millions of Erie. A portion of this, perhaps 25 per cent of the whole, represents private capital actually paid in and expended; another portion, perhaps equally large, represents dividends the payment of which was foregone and the money applied to construction; the whole of the remainder may be set down as pure, unadulterated "water," which calls for an annual tax-levy of some eight or ten millions a year. Nearly twenty years ago Bastiat asserted that every one was "seeking in sincerity and ardor the solution of this problem, — *to bring the price of things in their place of consumption as near as possible to their price in that of production.*" Either the railroad companies constitute an exception to this general rule, or their method of procedure has not yet been fully explained.

The ultimate result to which this practice must lead, if persevered in, is not now to be considered. Meanwhile, before that end is attained, and the great mass of our railways are reduced to the present condition of Erie, — their stock being on the street, and useful only for "speculative purposes," — before a final reconstruction of the relations between the railways and the community becomes a necessity, the whole energies of railroad managers must be directed to the increase of net earnings. To this end the public must be plundered where no competition exists, and the roads plundered where it does; rolling-stock and road-beds will be worn out, and the lives of the community jeopardized by cheap iron and single tracks; gamblers will gain possession of our roads, and the manipulation of stock will be considered the essence of railroad management. Impelled by this necessity of their own creation, a strong inducement is held out to the members of the system to reverse their tactics; as hitherto they have competed to their own loss, in future they may combine to the loss of the public. It is true that the machinery for doing this is almost necessarily confined to freights; but few persons, who do not make a study of railroad questions, at all realize what a controlling element in the business and profits of railroads is included under the heading of "freights." The growth of this branch of the business of railways, both here and in Europe, has been such that the mind with difficulty grasps the figures which express it. During the last year the freight

transported on the roads of the United States was 75,000,000 tons, valued at \$10,472,250,000. This movement dates almost wholly from the year 1851, when the railway freight of this country did not probably exceed a fifteenth part of what it now is, nor even as late as 1858 did it exceed eighteen millions of tons. The increase has mainly been the work of the last decade. In 1851 the freight business and the passenger business were of nearly equal value to the railroad system, returning that year about \$20,000,000 each; during the year 1868 the ratio of freight earnings to passenger earnings was as two and a half to one, or \$280,000,000 to \$120,000,000.\* Those who can may grasp the significance of those figures; they are introduced here simply to illustrate the magnitude of that branch of their business which the roads may at any time take out of the field of competition. The inducement to do so is sufficiently great; the machinery required is already in existence and partially developed; the organizing and combining mind alone is wanting; and, not impossibly, the sharp dividend exigencies of watered stock may, at no remote period, call it into existence. Should this take place, new problems, social, political, and economical, will force themselves on the community for solution.

There are those, doubtless, who will incline to the opinion that in such a contingency the simple alternative will be presented to the community between the ownership of the railroads by the State and the ownership of the State by railroads. Unfortunately neither alternative disposes of the difficulty. This is no trifling matter, to be dogmatically settled or lightly experimented upon, but a decision of it involves far-reaching social and political consequences which the most sagacious cannot fathom. Take, for instance, the conception of the ownership of railroads by the State,—the Belgian system, as it is called,—towards the adoption of which Great Britain seems now tending, and which is not without advocates in this country. Suppose the conflict with the corporate railroad system to be over, and the railroads to be purchased and transferred to the State, to be thereafter operated by the community,

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\* *Manual of Railways of United States, 1868*—9, H. V. Poor, pp. xli. — xliii.



in its own interest, as the post-office is managed by it at present. What result would such an innovation and precedent have upon our political system? It is wholly futile to suppose, in the face of the growing tendency to nationality, the constantly increasing disposition to ignore State lines and to transfer control to the general government, that this revolution would confine itself to State limits, or that a dozen different organizations would control a Pacific railway. Such a system, with local jealousies, interests, and pride to contend with, — each great line running the gauntlet of a dozen rival competing points, and artificially turned into twenty interested channels, — would so hamper the commerce of the continent that it would crumble into chaos in less than a twelvemonth. Government ownership of railroads can therefore with us only mean their ultimate ownership by the national government. It may not at first thus present itself, but to this favor must it come. The fundamental principle of our political system, particularly the national system, is non-interference. It originated in a protest against the doctrine, once, on this continent at least, supposed to be antiquated, that that government was best which governed most. Our whole political organization, our history as a nation, the prodigious material development of which we are so vain, — all of these rest on the great principle of limited governmental functions, and the leaving of persons and interests to rely on themselves and to work out their own destiny in their own way, subject to the least possible external interference. To turn over to a government constructed on such a principle the management of so complex an organization as the railroad system would be like planting an oak-tree in a porcelain vase. It is unnecessary to maintain that our political system is the best; perhaps, after all, we were wrong, and the French, or the Belgian, or the Russian system is better than ours. It is not necessary to decide this question. The point simply is, that unless a total change, social and political, is contemplated, it is not wise to enter upon that course which must inevitably result in such a change. If the people of this country want a strong, compact, all-regulating, and all-providing central government, it is at any time in their power to have it; but it is much to be hoped that they will not fall

into the lamentable error of thrusting the functions of an autocrat on the machinery of a commonwealth. Of late they have shown some inclination to do so ; should the same tendency undergo a further and rapid development, — should one innovation be made a precedent for another, — it is not impossible that another generation may behold the beautiful system which once sought jealously to confine itself to the simplest functions, staggering along in a clumsy endeavor to do that which those whom it thought to forever displace could do many times as well. Revolutions never stand still. If our fundamental principle is to be violated, and the government become a common carrier to please one class of reformers, it will soon become a banker to please another, an expressman to gratify a third, and a telegraph-operator to supplement its other duties as postman. The feudal system having yielded to the monarchical, and that in turn to the republican, the next phase would seem to be the co-operative trades-union.

Meanwhile, here are two systems growing and expanding side by side, — the representative republican system of government, adapted to a simple and somewhat undeveloped phase of society ; and the corporate industrial system, the result and concomitant of a complex and artificial civilization. How long can they develop together ? The peculiarities and combinations now noticed in our legislatures and market-places, the growing torpidity of public opinion, the constant strain under which our machinery of government visibly works, the crude, undigested propositions for reform which emanate from every quarter, the startling rapidity with which change develops itself, and the rapidly shifting phases which all interests assume, clearly indicate some deep-seated social and political revolution now in progress. What this will result in, time only can disclose. It would be a mere waste of space and ingenuity to endeavor to forecast it at present. One thing is, however, daily becoming more evident, and as a result may, according to present indications, soon be classed among the things that are inevitable. Our political system cannot much longer sustain the conflict with corporations. Modern civilization has created a class of powers which are too strong for the control of our governments. The machinery of com-

bination and perpetuity is too perfect. The future in this matter is in some degree foreshadowed by the past. Once already has a great corporate interest grasped at the control of our government, and it could only be thrown off by the convulsion of a civil war. On one other occasion the government became involved in a conflict with a private corporation, wielding the power of only \$35,000,000 of capital, and for years the country was disturbed. Both of these were the episodes of earlier and simpler days. What is the aspect of the present? The States of New Jersey, Pennsylvania, and Maryland are respectively owned by corporations within their limits. New York is governed by two corporations, acting in concert with one corrupt political ring. The United States is struggling painfully with half a dozen great combinations of private and corporate interests, and no well-informed man doubts that to-day it is in the power of the national banking system alone to dictate to the national government any financial policy it may desire, and to compel its adoption. The simple fact is, that on the people, who with us are the source of all power, these combinations, through their material influence and their power to create or allay disturbance, exercise more control than officials and reformers combined. How indeed could it be otherwise? Compare the things of to-day with those of yesterday. The United States Bank, in the days of its greatest pride, boasted a capital of \$35,000,000. The slave power was welded together by nine hundred millions of property, but controlled only one section of the country and could be combated in another. The bank was overthrown through its own folly, after a nine years' struggle; the destruction of slavery was accomplished after twenty-five years of agitation and four years of civil war. The present banking system consists of one compact organization, sensitive to the common interest, subject to a common control, which now enjoys \$426,000,000 of wealth, and \$50,000,000 of income, and is distributed all over the country. The railroad system dwarfs even this. Single members of it control two hundred millions of capital and employ tens of thousands of men. As a united influence it shoots out its ramifications into every State and county and town of the whole Union, and represents and wields all the power contained in

\$2,000,000,000 of wealth. These are the disturbing forces now called upon to take part in a social system which grew up under a government created in 1789. What will be the limits of their action? May not the oak-tree already be shattering the porcelain vase? These powers and influences, be it remembered, do not violently overthrow, but rather quietly antique, any system of government which thwarts their development. In our case they will prove a disturbing, and probably, under the present system of government, an uncontrollable, force just so long as their development is a subject of legislation, and so long as the community seeks to impose legal restraints upon them, or they have ends to gain with legislative bodies. To these there will be no end. The real danger lies in the sad fact that in the conflict the government has not an equal chance. The corporations are always in earnest; the officials rarely are. Above all, the corporation does not change. Its whole organization aims at unity in council, persistency in action, and the selection from the community of the highest order of that ability which it needs, and which, once found, it permanently retains in power: it is a disciplined, organized army. This superb, effective organism, the last development of modern civilization, is then placed in subordination to, or brought into conflict with, a political administration which originates in the caucus, is continually trembling for its retention in the temporary power which it received on the principle of rotation in office, and which it signalizes by a new illustration of the maxim that to the victors belong the spoils. In conflict with such a system it needs no prophet to foresee that, in the future, as in the past, the spoils will, as a rule, belong to the corporations.

CHARLES F. ADAMS, JR.